



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	HB0493	<b>Title:</b>	Provide for financing and construction of the south west veterans' home
<b>Primary Sponsor:</b>	Lynch, Ryan	<b>Status:</b>	As Introduced

- |   |   |  |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### **FISCAL SUMMARY**

	<b><u>FY 2016 Difference</u></b>	<b><u>FY 2017 Difference</u></b>	<b><u>FY 2018 Difference</u></b>	<b><u>FY 2019 Difference</u></b>
<b>Expenditures:</b>				
General Fund	\$2,010,750	(\$119,850)	(\$124,725)	(\$124,950)
State Special Revenue	\$6,163,598	\$867,872	\$867,872	\$867,872
Federal Special Revenue	\$1,104	\$480	\$480	\$480
Loan	\$7,700,000	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$800,000)	(\$800,000)	(\$800,000)	(\$800,000)
State Special Revenue	\$6,163,598	\$867,872	\$867,872	\$867,872
Federal Special Revenue	\$1,104	\$480	\$480	\$480
Loan Proceeds	\$7,700,000	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<b><u>(\$2,810,750)</u></b>	<b><u>(\$680,150)</u></b>	<b><u>(\$675,275)</u></b>	<b><u>(\$675,050)</u></b>

**Description of fiscal impact:** This bill authorizes the Department of Public Health and Human Services to enter into a loan agreement with the Montana Facility Finance Authority for the purpose of financing the acquiring, construction, and equipping of the Veteran's Home in southwestern Montana pending receipt of federal funds. The total project cost is presently estimated at \$15 million.

## FISCAL ANALYSIS

### Assumptions:

#### **Department of Administration:**

1. Department of Veterans Affairs (VA) will allow federal grant funds to be used to pay the principal and interest of a mortgage loan. If the grant only allows the principal to be paid with federal funds, then the interest of the loan will be paid with cigarette tax revenue.
2. VA will allow the balance of any federal funds remaining after a mortgage is paid in full to be transferred to the general fund.
3. VA will allow federal grant funds to reimburse the State of Montana (MT) for project and construction costs incurred before the grant award date. It is Department of Administration's (DOA) understanding that costs incurred prior to award of a federal grant are typically not reimbursable.
4. All construction costs of a new veterans' home will be allowable costs of a federal grant and the building will be built in conformance with VA grant requirements.
5. VA grant funds are awarded on the size, scope, and parameters of the project in the grant application. The project size, scope, and parameters cannot be reduced to accommodate the interest payments, debt service, or financing costs of a loan.
6. If a federal grant is not received, the state special revenue account will not be reimbursed and the project and loan will be funded with 100% cigarette tax revenue.
7. Bill language allows DOA's Architecture & Engineering (A&E) to move authority amongst fund types. Therefore, A&E may be allowed to move federal special revenue authority to state special revenue authority for the difference between the principal amount of a loan received and the federal special revenue authority approved in section 5 of the bill. Any amount moved to the state special revenue account will be funded with cigarette tax revenue. If there is not enough cash in the state special revenue fund, then A&E will be allowed to obtain a general fund loan until there is enough revenue to pay back the loan.
8. The authority in section 5 is project authority and will be used to pay project costs. Section 4 allows A&E to establish statutory authority to pay the principle and interest of the loan. This statutory authority may not exceed \$10 million.
9. The loan is assumed to be taken at a 3.5% interest rate for \$10 million principal and interest with a 15 year payback.
10. The below chart shows some of the scenarios that could happen under the bill as written:

<b>Total Project Authority</b>	<b>Total Project Authority</b>	<b>Project Authority &amp; Interest w/ Loan Cap of \$10M</b>	<b>Project Authority if Interest Portion of FSR Shifted to SSR</b>	<b>Project Authority if Federal Grant is Not Received &amp; FSR Shifted to SSR</b>
Cigarette Tax Revenue (SSR)	\$ 5,293,750.00	\$ 5,293,750.00	\$ 7,425,000.00	\$ 7,425,000.00
Loan				\$ 7,700,000.00
Federal Grant (FSR)	\$ 9,831,250.00	\$ 7,700,000.00	\$ 7,700,000.00	\$ -
Total Project Authority	\$ 15,125,000.00	\$ 12,993,750.00	\$ 15,125,000.00	\$ 15,125,000.00
Interest on 15 yr. loan @ 3.5%	*	\$ 2,296,000.00	\$ 2,296,000.00	\$ 2,296,000.00
Loan & Interest		\$ 9,996,000.00	\$ 9,996,000.00	\$ 9,996,000.00
<b>Total Project Costs Including Interest</b>				
State Special Revenue		\$ 7,589,750.00	\$ 9,721,000.00	\$ 17,421,000.00
Federal Special Revenue		\$ 7,700,000.00	\$ 7,700,000.00	
<b>Total Cost of Project</b>		\$ 15,289,750.00	\$ 17,421,000.00	\$ 17,421,000.00

\*Chart shown is with the assumption that a federal grant will not allow interest on loan to be paid with grant funds.

**Department of Public Health and Human Services (DPHHS):**

11. The Southwestern Veterans' Home will be a contracted state veterans' facility and will not be state operated.
12. Senior and Long Term Care Division (SLTC) will require 1.00 FTE in FY 2016 for an on-site liaison, in order to receive Federal VA regulations. The cost of salary and benefits for this level 06 program manager is \$66,352. This FTE will also coordinate the construction of the new veterans' home for the SLTC division. This funding will need to be included in HB 2.
13. Operating expenses include a one-time only \$1,400 computer expense and \$1,200 work station expense for the FTE at the time of hire. On-going expenses will include \$888.00 for phone and supplies. This funding will need to be included in HB 2 in the biennium in which the facility will open.
14. Network connectivity to the states network is estimated to be \$1,112 per year. This cost is estimated to be paid with 76% state special revenue and 24% federal funds. This funding will need to be included in HB 2 in the biennium in which the facility will open.

	<b><u>FY 2016 Difference</u></b>	<b><u>FY 2017 Difference</u></b>	<b><u>FY 2018 Difference</u></b>	<b><u>FY 2019 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b>FTE</b>	1.00	1.00	1.00	1.00
<b><u>Expenditures:</u></b>				
Personal Services	\$66,352	\$66,352	\$66,352	\$66,352
Operating Expenses	\$4,600	\$2,000	\$2,000	\$2,000
Capital Outlay	\$15,125,000	\$0	\$0	\$0
Debt Service	\$679,500	\$680,150	\$675,275	\$675,050
Transfers	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b><u>\$15,875,452</u></b>	<b><u>\$748,502</u></b>	<b><u>\$743,627</u></b>	<b><u>\$743,402</u></b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
Loan Proceeds	\$7,700,000	\$0	\$0	\$0
State Special Revenue (02)	\$6,163,598	\$867,872	\$867,872	\$867,872
General Fund Loan	\$2,010,750	(\$119,850)	(\$124,725)	(\$124,950)
Federal Special Revenue (03)	\$1,104	\$480	\$480	\$480
<b>TOTAL Funding of Exp.</b>	<b><u>\$15,875,452</u></b>	<b><u>\$748,502</u></b>	<b><u>\$743,627</u></b>	<b><u>\$743,402</u></b>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$800,000)	(\$800,000)	(\$800,000)	(\$800,000)
Loan Proceeds	\$7,700,000	\$0	\$0	\$0
State Special Revenue (02)	\$6,163,598	\$867,872	\$867,872	\$867,872
(SW Vets account est. cash balance as of 7/1/2014 is \$5.293M)				
Federal Special Revenue (03)	\$1,104	\$480	\$480	\$480
<b>TOTAL Revenues</b>	<b><u>\$13,064,702</u></b>	<b><u>\$68,352</u></b>	<b><u>\$68,352</u></b>	<b><u>\$68,352</u></b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$2,810,750)	(\$680,150)	(\$675,275)	(\$675,050)
State Special Revenue (02)	\$0	\$0	\$0	\$0

**Long-Term Impacts:**

1. It is assumed the new facility's ongoing operating and maintenance (O&M) costs will be funded from the cigarette taxes collected under 16-11-119(1)(a), MCA. This will decrease the revenue into the general fund in the future as the balance in excess of \$2 million is transferred into the general fund at the end of each fiscal year. O&M of the building and physical plant will cost approximately \$300,000 per year.

**Technical Notes:**

1. As written, the bill will not authorize sufficient funds to construct the southwestern Montana veterans' home as presently programmed and submitted for in the federal grant application. Unless authority is transferred amongst fund types and the state special revenue appropriation is increased, project costs and construction would be capped at \$13 million as a result of the loan amount language in Section 1.
2. Section 1(1) states "The maximum principal amount of the loan may not exceed \$10 million for construction and related costs, which includes the necessary amounts for capitalized interest, debt service reserves, and financing costs." As principal and interest of the loan may not exceed \$10 million, A&E estimates that approximately \$7.7 million will be the maximum principal amount borrowed assuming a 3.5% interest rate with a maximum of a 20 year payback. Interest payments will total an estimated \$2.3 million with the total amount of principal and interest at \$10 million.
3. Section 1(2) states all state special revenues received as of June 30, 2015 must be used to pay for the state special revenue appropriation. Any amounts attributable to cigarette tax collections for FY 2015 received after June 30, 2015 will not be allowed to be used to pay for project costs or for the loan.
4. It is A&E's understanding that the conditions of a federal grant awarded on the basis of what was submitted in the grant application process will not allow the project scope to be reduced to accommodate for the \$10 million cap for principle and interest. Reducing the project scope to fit within funding of \$13 million may conflict with the terms and conditions of the federal grant application regarding the scope of what is to be constructed, which may nullify use of the federal grant funds, if approved.
5. As the bill is currently written, A&E believes a financial audit risk may exist if a federal grant is either not obtained or if it is obtained in fiscal years after project expenditures are recorded in a federal special revenue fund.
6. A&E estimates that obtaining a loan until a federal grant is received will reduce the funding available for the project by \$2.1 million as the bill language requires the \$10 million authorized to include not just the loan principal, but also interest payments, debt service, and financing costs. The total project cost is presently estimated at \$15 million.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*